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'Discussion Paper' Proposes Radical Changes to Single Desk

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Report Highlights:

A controversial discussion paper on the future of the single desk wheat export marketing system over the next four years was presented at Grains Week 2006 in Canberra on April 5. The paper, commissioned by the Grains Council of Australia (GCA), proposes that the AWB lose its power of veto to a grower owned and controlled company - Australian Wheat Associates. The company would replace the Wheat Export Authority (WEA) and would have the ability to issue licences to secondary exporters. The company would also have the responsibility to market and promote Australian wheat. GCA said the paper does not yet represent GCA policy.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Canberra [AS1]
[AS]

In response to the potential marketing uncertainty resulting from awaiting the outcome of the Cole inquiry of the Australian Wheat Board (AWB) activities under the Oil-for-Food Program, the Grains Council of Australia (GCA) commissioned a strategic plan for exporting Australian wheat over the next four years. The strategic plan, prepared by Marshall Place Associates, was presented as a discussion paper during the April 5 meeting of Grains Week 2006 in Canberra, Australia. The final report of the Cole Commission is expected by June 30, 2006.

The discussion paper focused on the future of the single desk wheat export marketing system over the period 2006/07 through 2009/10. GCA Chairman, Murray Jones, said the paper was based on overwhelming demand from the industry for a grower-owned and controlled system of marketing the export wheat crop, currently valued at more than \$A 4 billion. "This is the most important issue facing our industry, and Grains Council of Australia will be leading the consultation process over the next few months to establish consensus between growers, Government and exporters", Mr. Jones said in a press statement following the release of the discussion paper.

The discussion paper is presented below. Briefly, it proposes:

Amending the Wheat Marketing Act to place ownership of the single desk in the hands of growers and to create a Primary and Secondary wheat export licensing system.

The formation of a producer-owned company, Australian Wheat Associates, which would replace the Wheat Export Authority (WEA) as the 'industry regulator' to administer wheat export licenses. By introducing a licensing system, growers would effectively have the 'export veto' through their powers to grant and revoke licenses.

The producer-owned Australian Wheat Associates would, over a period of 2 to 3 years, assume a number of activities currently carried out by AWB including, trade advocacy, management of 'Australian Export Wheat' branding and market development activities.

For the 2006/07, 07/08 and 08/09 seasons, AWB would be the Primary license holder and would thus run a national pool and continue to be the receiver of last resort.

AWB would, over the period 2006-2010, increase opportunities for non-AWB companies to provide key services to the management of the Primary license (the single desk).

Secondary licenses would be introduced to replace the WEA permit system, to provide opportunities for high value niche market exports and to meet the needs of vertically integrated investors. (Note: Under the current system, under the Wheat Marketing Act, approval of all wheat exports must be sought from the Wheat Export Authority (WEA). AWB not only holds an exemption from having to apply to the WEA, it holds veto power over all bulk exports, a power it has exercised over all but one of the requests put to WEA since 1999.)

Begin discussion paper:

**Grains Industry Discussion paper
Enhancing the Australian wheat export system
Time Line & Milestones**

Marshall Place Associates has been commissioned by the Grains Council of Australia to produce a strategic plan for the 2006/07 to 2009/10 wheat seasons.

The brief given to Marshall Place specified that the strategy must take account of continued grower support for the wheat export single desk, demonstrated across Australia at producer meetings and conferences in recent weeks.

The strategic direction for the 2006/10 period suggested by Marshall Place also takes account of the need for stability and predictability in the industry.

The key principles underlying the Marshall Place strategy are:

- Creating certainty, stability and predictability in the industry following Cole
- Increasing accountability and the transparency of single desk management
- Creating a more transparent flow of market signals from wheat consumers back to producers
- Increasing preparation for global pressures against the single desk
- Moving responsibility for industry regulation from Government to growers

The Cole Commission provides the industry with an opportunity to make some overdue adjustments to the way in which the single desk is managed and regulated.

We have examined the operations and effectiveness of the US Wheat Associates and are proposing that the Australian wheat industry takes a leaf out of our competitors' book and separates industry advocacy and general market development, from wheat selling and trading. Marshall Place is proposing:

- 1) Amending the Wheat Marketing Act to place ownership of the single desk in the hands of growers and to create a Primary and Secondary wheat export licensing system
- 2) The formation of a producer owned company that would replace the Wheat Export Authority as the 'industry regulator' to administer wheat export licenses. We have called this company *Australian Wheat Associates*.
- 3) The producer owned *Australian Wheat Associates* would, over a period of 2 to 3 years, assume a number of activities currently carried out by AWB including trade advocacy, management of 'Australian Export Wheat' branding and market development activities.
- 4) The producer owned company would be modeled on the successes of Meat and Livestock Australia, Dairy Australia and the Wine and Brandy Corporation.

By amending the Wheat Marketing Act and placing the 'ownership' of the single desk in the hands of producers (through *Australian Wheat Associates*), Marshall Place is advocating a system that preserves the single desk as a trading system, while addressing longstanding concerns with its management and oversight.

The Marshall Place model for Primary and Secondary wheat export licensing is:

- By introducing a licensing system, growers will effectively have the 'export veto' through their powers to grant and revoke licenses.

- For the 2006/07, 07/08 and 08/09 seasons, AWB would be the Primary license holder; guaranteed 85% of all export wheat to manage through an export pool.
- AWB would, over the period 2006 / 10, increase opportunities for non AWB companies to provide key services to the management of the Primary license (the single desk)
- Secondary licenses for bags and containers would be introduced to replace the WEA permit system, to provide opportunities for high value niche market exports and to meet the needs of vertically integrated investors.
- The allocation of tonnage to Secondary licenses would increase from the current 550 kt by 0.5 Mt per year to 1 Mt in 2006/07 up to a maximum of 2.5 Mt in 2009/10.

Marshall Place is also recommending that grower communication and education forums are held in mid 2006 to describe these enhancements to the industry.

We also recommend that a formal industry consultation process takes place in 2008 to evaluate the performance of *Australian Wheat Associates* and to develop strategic plans for post 2010.

Today

- AWB continue to maintain the single desk for stability and certainty of marketing the 2006/07 harvest by running the 'national pool' and continuing as receiver of last resort for 06/07 harvest.
- Ensure stability and certainty for the 06/07 hedging program. Initial hedging investment of more than \$100 M commenced in March 06.
- This provides certainty and stability required by markets, customers and finance providers and protects growers and AWB grower shareholders interests

2006-07 Harvest

- Commence set up of growers company *Australian Wheat Associates*, using AWB 1 'A' class shareholder structure
- Amend the Wheat Marketing Act and sunset WEA at 1st March 2007
- *Australian Wheat Associates* becomes the regulator from 1st March 2007
- Remove exemption for Nominated Company B, transfer ownership of single desk to growers company
- Introduce a single Primary license and multiple Secondary wheat export licenses
 - Enforceable license provisions with protection for key 'high value' export region
 - More transparent market reporting
 - Clearer business rules
 - Penalties for non compliance with license conditions
- Secondary licenses issued for exports from 1st March 2007
- AWB the Primary license holder for further 2 harvests (07/08 & 08/09)
 - Condition of Primary license to run a 'national pool' and be receiver of last resort
 - Lower base fee for marketing, logistics, trade and risk management services
 - Removal or recalculation of benchmarks (WIB) and incentive calculations (out performance)
- Primary license requires some services to the pool to be sourced from non A WB suppliers
- Increase non A WB exports from 550 kt up to 1 Mt in bags and containers
- Australia Wheat Associates assumes responsibility for Trade Advocacy from A WB

2007 -08 Harvest

- AWB continues to be the Primary license holder and manager of a national pool/receiver of last resort

- Secondary license tonnage lifted to 1.5 Mt - with some bulk shipments approved by *Australian Wheat Associates*
- In 2008, consultation with industry commences on post 2009/10 harvest industry structure with grower and industry forums to set strategic direction for industry post 2010

2008 -09 Harvest

- Final year for AWB as the Primary license holder granted in 2006
- Increase secondary license tonnage to 2.0 Mt
- *Australian Wheat Associates* assumes responsibility for coordinating *Australian Export Wheat* branding and generic international promotion
- *Australian Wheat Associates* assumes responsibility for coordinating in-marketing generic technical support and other international market development activities

2009 -10 Harvest

- Introduction of post 2010 industry structure per model formulated through industry consultation in 2008

End Discussion Paper.

Comment: The discussion paper was controversial and sparked lively discussion during Grains Week, as grains industry representatives both in support and in opposition of the single desk voiced their opinions. Some representatives opined that the exercise was premature; there was no need to change the existing structure. In response to those comments, representatives from GCA noted that the outcome of the Cole inquiry is uncertain and changes to the current system may be necessary. Therefore it is prudent to begin to consider what changes would be best for the industry, if changes are required.

The New South Wales Farmers' Association has rejected the discussion paper. President of the association, Jock Laurie, said the discussion paper did not reflect the opinion of growers across the country. He has called for all State farming organizations to reject the report.

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<http://www.fas.usda.gov/scripts/AttacheRep/default.asp>.

Report Number	Title of Report	Date
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6006	Ag Down Under Vol. 2	01/27/06
6009	Ag Down Under Vol. 3	02/15/06
6013	The Corish Report: "Creating Our Future: Ag & Food Policy for the Next Generation"	03/08/06
6015	Ag Down Under Vol. 4	03/10/06
6017	Grain Annual	03/21/06
6019	Ag Down Under Vol. 5	03/24/06